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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY, *Plaintiff-Petitioner*

v.

BICRON CORPORATION, *et al.*, *Defendants-Respondents*

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

MOTION OF CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA FOR LEAVE TO FILE BRIEF AMICUS CURIAE
and
BRIEF FOR AMICUS CURIAE CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA

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MOTION OF CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA FOR LEAVE TO FILE A BRIEF AMICUS CURIAE

The Chamber of Commerce of the United States of America respectfully moves for leave to file a brief Amicus Curiae in support of issuance of a writ of certiorari. A copy of the brief is submitted herewith.

Petitioner, Kewanee Oil Company, through its counsel, has consented to the Chamber's participation herein as Amicus Curiae. Respondents, Bicron Corporation, et al, through their counsel, have refused to consent to the Chamber's participation.

The Chamber of Commerce of the United States of America is a national membership association of over thirty-six hundred (3,600) state and local chambers of commerce and trade associations with an underlying membership of over five million (5,000,000) business firms and individuals in both metropolitan and rural areas. The Chamber's direct business memberships number in excess of forty-six thousand (46,000).

The Sixth Circuit Court of Appeals has held that the Constitution of the United States and the Federal Patent Laws preempt the State of Ohio's right to protect trade secrets from wrongful appropriation by others, where the trade secret is an appropriate subject for a patent and has been used commercially for more than one year.

The U. S. Chamber of Commerce has a vital interest in this case. Its members, many of whom are located in the Sixth Circuit, have relied on and wish to continue heavily to rely on the protection, until recently, universally afforded trade secrets at common law and under State laws. Unless reversed, the decision of the Sixth Circuit will destroy trade secrets, including business and technical know-how, which are valuable and essential to the competitive position of many of its members in both domestic and international markets. These trade secrets which have been developed at great expense will become available to others for nothing.

The U. S. Chamber of Commerce seeks leave to file a brief Amicus Curiae in support of the petition for certiorari to bring before this Court facts on the adverse effect the Sixth Circuit decision will have on the growth of technology in the United States, on

U. S. industry generally, and on the economic well-being of the nation. Further, the Chamber wishes to emphasize the important public interest and policy reasons why the decision should be reviewed by this Court, and to urge reasons why, as a matter of law, the petition for a writ of certiorari should be granted.

The U. S. Chamber of Commerce respectfully requests leave to file, as Amicus Curiae, the accompanying brief urging issuance of a writ of certiorari.

Respectfully submitted,

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BRIEF FOR AMICUS CURIAE CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA

INTRODUCTION

The Chamber of Commerce of the United States of America urges the issuance of the writ of certiorari as sought by Kewanee Oil Company. That petition should be granted to resolve the vital constitutional issue created by the decision of the Sixth Circuit Court of Appeals in *Kewanee Oil Co.* v. *Bicron Corp.*, Nos. 71-1041 and 71-1042, decided May 10, 1973. This decision held that the United States Constitution and the Federal Patent Laws preempt the State Trade Secret Law of Ohio to the extent that this law provides protection to a trade secret which is "an appropriate subject for a patent" and "has been used commerically for more than one year."

The implications of the decision are even broader and could easily lead to the conclusion that all trade secret law is preempted. Moreover, the decision is erroneous and directly conflicts with holdings of the Second, Fourth, Fifth, and Ninth Circuits, as well as other court decisions (including those of this Court), acts of Congress, and treaties of the United States.

INTEREST OF THE CHAMBER OF COMMERCE OF THE UNITED STATES

The Chamber of Commerce of the United States of America is a national membership association, including over thirty-six hundred (3,600) local and state chambers of commerce and trade associations. These state and local chambers have underlying membership of over five million (5,000,000) business firms and individuals in both metropolitan and rural areas. The Chamber's direct business memberships number in excess of forty-six thousand (46,000).

Many members of the Chamber rely heavily on the protection of trade secret laws, both under statute and at common law. Unless the *Kewanee* decision is reversed, these members stand to lose their valuable trade secrets, including business and technical know-how, and, in consequence, to suffer severe financial loss and erosion of their competitive strength, not only in the United States, but in world markets. These trade secrets which have been developed at great expense will become available to others for nothing.

QUESTIONS PRESENTED

1. Has the power granted to Congress under Article I, Section 8, Clause 8 of the Constitution and the enactment of the Federal Patent Laws destroyed the common law of trade secrets and prohibited the States

from giving protection to trade secrets with the resulting loss of a great national asset embodied in the trade secrets and know-how developed in this country?

2. Should trade secrets be protectible as property rights at common law and under State laws, as held by the Second, Fourth, Fifth, and Ninth Circuits, or should the property rights in trade secrets be obliterated, as held by the Sixth Circuit?

REASONS FOR GRANTING THE WRIT

I. THERE IS A VITAL PUBLIC INTEREST IN RESOLVING THE DIRECT CONFLICT BETWEEN THE SIXTH CIRCUIT AND FOUR OTHER CIRCUITS

The economy of this nation is obviously of vital public interest, and our commitment of resources to research and development (R&D) will be a major determinant of our future economic well-being. The Sixth Circuit opinion could diminish R&D commitments either: (1) by denying adequate protection to the expensive fruits of R&D, or (2) by raising baffling uncertainties as to the nature of protection available for the results of R&D. Thus the *Kewanee* decision poses a critically significant question "involving principles the settlement of which are of importance to the public as distinguished from that of the parties".[1]

While precise measures are perhaps lacking, it is generally accepted that there is a relationship between the economic strength of a nation and its investment in R&D. The National Science Foundation lends clear support to this premise in its statement:

> "Although what we know about the relationship between R&D and economic growth/productivity

[1] Layne & Bowler Corp. v. Western Well Works, Inc., 261 U.S. 387, (1923). See also Rice v. Sioux City Cemetery, Inc., 349 U.S. 70, (1954).

is limited, all available evidence indicates that R&D is an important contributor to economic growth and productivity. Research to date seeking to measure this relationship (at the level of the firm, the industry, and the whole economy) points in a single direction — the contribution of R&D to economic growth/productivity is positive, significant and high."[2]

II. THIS DECISION COMES AT A TIME OF MOUNTING CONCERN FOR THE ECONOMIC WELL-BEING OF THE UNITED STATES AS AN EFFECTIVE COMPETITOR IN WORLD MARKETS

The nation's concern in recent years over its "economic growth/productivity" has continually focused on our declining position in international trade. While our trade deficit has been reduced from $6.3 billion in 1972 to an annual rate of $1.6 billion for the first six months of 1973[3], it is obvious that we can no longer rely upon our positive balance of trade position which endured until 1970.

Our competitive stance in world markets has been eroded over the years. The U.S. share of the world gross national product has declined from 39.3% in 1950 to 30.2% in 1970.[4] At the same time, other countries have made dramatic advances. Japan's share has grown from 1.5% to 6.2%, roughly a fourfold increase.[5] The EEC's share has grown from 11.1% to 14.85%[6]

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[2] Research and Development and Economic Growth/Productivity, National Science Foundation, NSF 72-303, 1971, p. 3.

[3] Commerce Today, August 20, 1973, p. 8.

[4] The United States in The Changing World Economy, Peter G. Peterson, 1971, Chart I.

[5] Ibid.

[6] Ibid.

A positive aspect of this otherwise discouraging picture, however, is our increased trade over this twenty year period in "technology-intensive" manufactured products — the fruits of R&D. Our *exports* of such products rose from $6.6 billion in 1951 to $22.6 billion in 1970.[7] By contrast *exports* of "non-technology intensive" products rose from $3.7 billion in 1951 to only $6.8 billion in 1970.[8]

By 1970 our *imports* of "non-technology-intensive" products had risen to $12.9 billion,[9] and our *imports* of "technology-intensive" products to $13.0 billion.[10] In 1970 we thus experienced a *favorable* trade balance of about $10 billion in *"technology-intensive"* products. By contrast, however, we simultaneously suffered a trade *deficit* of about $6 billion in *"non-technology-intensive"* products. It was thus our very healthy trade position in "technology-intensive" products that saved us from the embarrassing economic effects of the deplorable degradation of our trade balance in "non-technology-intensive" products.

It appears, however, that in recent years "the United States has been losing its technological leadership in the production and export" of such technology-intensive products. This fact was recognized in the Department of Commerce study of the "Policy Aspects of Foreign Investment by U. S. Multinational Corporations":

> "Within the Department of Commerce, Dr. Michael Boretsky has investigated this area in

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[7] Id. at Chart 21.

[8] Id. at Chart 20.

[9] Ibid.

[10] Id. at Chart 21.

detail. Through an analysis covering, *inter alia,* United States and foreign trade trends, productivity and R&D expenditures, Boretsky has produced evidence which tends to support the thesis that the United States depends largely upon the export of high technology products for a favorable balance of trade. Boretsky argues that for the past several years the United States has been losing its technological leadership in the production and export of such products, and that if this trend is not reversed, the United States will face a continually worsening balance of payments position. His writings attribute this loss in competitiveness to a number of factors, including: increased intensity of foreign R&D efforts, slower rates of productivity increase by U.S. firms, the ability of foreign countries to make up considerable technological ground by the adoption of "old technology", exchange rates which put the United States at an unnecessary price disadvantage, and the ability of foreign countries to purchase and assimilate relatively new technologies from innovator countries."[11]

Thus, in an era when we are extremely dependent on our technological leadership and this leadership is being challenged, it is clearly counter-productive for the U.S. to relax the legal mechanisms which protect and stimulate our technological growth. Although the Commerce study recognizes that the erosion of our trade balance has in part occurred as a result of the transfer of technology to lesser developed countries, it is far better that such transfers should occur through

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[11] Policy Aspects of Foreign Investment by U.S. Multinational Corporations, U.S. Department of Commerce, Bureau of International Commerce, Office of International Investment, January 1972, p. 31.

controlled contractual arrangements rather than through breaches of trust and confidence.

The latter route denies to the nation the positive benefit to its international trade position that accrues from royalties paid to its citizens for rights to technological advances, developments, and discoveries. These rights include not only those embodied in patents, trademarks and copyrights, but also those embraced in trade secrets and business and technical know-how.

The benefit to U.S. foreign trade through export of these rights has grown from about $840 million in 1960 to about $3.0 billion in 1972. By contrast, the U. S. spent only about $276 million on imports of such rights in 1972. The international export sales of technology rights by the U. S. in 1972 thus produced the remarkably favorable trade balance of $2.7 billion.[12]

From the foregoing, it is clear beyond peradventure that the vitality of R&D activities in the United States, together with the protective support given to them by our legal system has sustained our international trade position in world markets over a period in which our trade balance and productivity were decreasing in low technology areas. It is also now common knowledge that competition against the United States is escalating even in high technology areas.

Put in the most simple and direct terms, this decision, if allowed to stand, is an invitation to foreign competitors of U.S. companies to come in and appropriate valuable trade secret and know-how technology from the U.S. owners with impunity. In a

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[12] Survey of Current Business, United States Department of Commerce, Vol. 53, No. 6, June, 1973, p. 28, lines 7, 10, 21, and 24.

somewhat less drastic view, at the least, U.S. trade secret and know-how technology, in the eyes of foreign licensees, must be devalued by a quantum that represents the effect of its having no value in a large industrial portion of the U.S. (the Sixth Circuit), even though it may be protectible elsewhere in the U.S. for the moment.

III. THE SIXTH CIRCUIT DECISION WILL HAVE A SINISTER AND DEPRESSANT EFFECT ON R&D COMMITMENT

Recognizing that other nations are "challenging us both in intellectual and in economic terms", President Nixon, in his Message to Congress March 16, 1972, on Science and Technology, called for "a strong new effort to marshall science and technology in the work of strengthening our economy and improving the quality of our life", but cautioned:

> "... we must see that the environment for technological innovation is a favorable one. In some cases, excessive regulation, inadequate incentives and other barriers to innovation have worked to discourage and even to impede the entrepreneurial spirit. We need to do a better job of determining the extent to which such conditions exist, their underlying causes, and the best ways of dealing with them."

In the "environment" which existed before the Sixth Circuit decision, there was evidence of a strong and aggressive R&D commitment by this nation. During 1972, Federal obligations for R&D totaled $17.3 billion, including obligations for R&D facilities, and it is anticipated that $18.3 billion will be expended in 1974.[13] In addition, industrial R&D expenditures

[13] The Budget for Fiscal Year 1974, p. 251, *et seq.*

totaled $11.4 billion in 1972, and it is expected these will increase to $13 billion in 1974.[14]

Commitments of this nature, however, can only be made in reliance upon a legal framework that will protect the investments made, so that industry or government can, with some certainty, expect to realize a reasonable private or public return. Otherwise, there is little incentive to engage in such activities.

The Sixth Circuit opinion injects tremendous uncertainty into the legal structure that has protected the fruits of R&D, not only within the Sixth Circuit, but throughout the nation. It is clear that industry within the Sixth Circuit now has no assurance that its developments, achieved through labor and risk of resources, will not be handed over free to competitors both foreign and domestic. Moreover, industry throughout the nation must now face the budgeting of R&D with unsettling uncertainty. Faithless employees or licensees may appropriate trade secrets elsewhere and use them in businesses within the Sixth Circuit.

An environment as unpredictable and precarious as this will clearly influence companies in their budgeting for R&D activities. The combined effect of denial of protection in the Sixth Circuit and uncertainty in the other circuits yields a clear disincentive to invest in R&D.

IV. THE SIXTH CIRCUIT DECISION CONDONES A MORALLY AND ETHICALLY INDEFENSIBLE STANDARD OF CONDUCT

If unpatented technical information is not protectible, hiring away key technical personnel of competitors and disloyalty will be encouraged and

[14] Science Resources Studies Highlights, National Science Foundation, February 28, 1973, NSF 73-301, p. 1-2.

abetted. These and similar practices are morally and ethically indefensible; they should not be legally permissible. Public policy *must* favor honesty and loyalty.

V. IF ALLOWED TO STAND, THE DECISION OF THE SIXTH CIRCUIT WILL HAVE A SERIOUS ADVERSE IMPACT ON THE U. S. ECONOMY

The paramount importance of the present case lies in the extraordinary adverse impact it will have on the economy of this nation, and the undesirable consequences which will follow, if this decision is not reversed.

Income to the U.S. from foreign licensing, largely of trade secrets, including business and technical know-how, is in excess of $2 billion. The rule of this case jeopardizes this very positive balance-of-trade account by rendering such licensed subject matter virtually valueless. Not only is the U.S. trade balance unfavorably affected, but the U.S. Treasury will also lose approximately half this income, normally received as income tax.

Additionally, the cross-flow of technology under license agreements is often beneficial, and occasionally essential, to the public interest. Foreign owners of trade secrets will not wish to risk disclosure to U.S. licensees, if the rule of the Sixth Circuit is permitted to stand.

Moreover, the adverse effect of the holding increases in seriousness as the size of the business involved diminishes. This case, if not reversed, will cause especially serious economic and social harm to individual entrepreneurs and small firms, many of whom depend for their survival upon a single, or a few, protected trade secrets or items of know-how.

It is urged that the Sixth Circuit decision should increase competition. That desideratum will not occur, however, because the effect is to kill the goose which lays the golden technology. Nor will it occur, if the effect is to force companies to compartmentalize R&D to minimize the likelihood of one person knowing all the trade secrets or know-how involved in a single project.

Further, companies, both large and small, will be reluctant to share their technology with others for fear that the value of the licensed technology will be lost through inadequate precautions being maintained by their licensees. In the past it has been customary to gear a licensee's payments to installments based on use of the technology so that the licensee pays based on what the technology is worth to him as it is used. Now, before a company could agree to license another company to use its technology it would have to receive full payment in advance as "front money", since the licensee after receiving the technology could refuse to make periodic payments based on use on the ground that the trade secrets are unprotectible.

Manifestly, this circumstance would foreclose small companies from licensing technology from others, since they could not afford the large lump sum payments which would be required in advance.

This impediment to the exchange of information can only have adverse effects and is, therefore, not in the public interest.

VI. THE SIXTH CIRCUIT RULING IS NOT FOUNDED ON SOUND LEGAL REASONING OR PRECEDENT

The ruling below is erroneous in that it misapplies the doctrine and holdings of this Court on federal preemption of appropriate areas for state action.

Although often admitting that federal preemption is a most perplexing question[15] this Court has maintained a wise accommodation between the needs of central control and the vitality of local institutions.[16] Thus, where Congress has not clearly expressed an intent to preempt a legislative area, this court has always insisted that the justification for federal supersession be compellingly clear.[17]

While exclusive federal authority in the field of patents is now resolved,[18] federal authority over trade secrets is certainly not, and the States have traditionally legislated extensively in the area. Where the States have exercised exclusive competence in the past, or where federal and State legislative competence has been concurrent, this Court has always assumed that the historic police powers of the States were not to be superseded, absent a clear and manifest purpose of the Congress to do so.[19] Thus, giving due

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[15] See Union Brokerage Co. v. Jensen, 322 U.S. 202 (1944); South Carolina State Highway Dept. v. Barnwell Bros., 303 U.S. 177 (1938); Kelly v. Washington, 302 U.S. 1 (1937); Townsend v. Yeomans, 301 U.S. 441 (1937).

[16] See Davies Warehouse Co. v. Bowles, 321 U.S. 144 (1944); City of Yonkers v. United States, 320 U.S. 685 (1944).

[17] See Cloverleaf Butter Company v. Haygood Patterson, 315 U.S. 148 (1942); Jennings v. United States Fidelity & Guaranty Co., 294 U.S. 216 (1935); Florida v. United States, 282 U.S. 194 (1931); Minnesota Rate Cases, 230 U.S. 352 (1913).

[18] Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964).

[19] Schwartz v. Texas, 344 U.S. 199 (1952); H. P. Welch Co. v. New Hampshire, 306 U.S. 79 (1939). See also Rice v. Santa Fe Elevator Corp., 331 U.S. 218 (1947); Allen-Bradley Local v. Wisconsin E. Rel. Bd., 315 U.S. 740 (1942); Napier v. Atlantic Coast Line R. Co., 272 U.S. 605 (1926); Savage v. Jones, 225 U.S. 501 (1912); Reid v. Colorado, 187 U.S. 137 (1902).

regard to a proper adjustment of State and federal power in our constitutional system,[20] unless Congress has definitely expressed or clearly implied an intent exclusively to occupy the area, and displace the State police power,[21] the State legislative scheme is valid.[22]

Nothing in this case indicates that Congress, in enacting the Patent Laws, left no room for the States to supplement protection of intellectual property.[23] Indeed, the legal groundings of patent and trade secret protection are quite dissimilar. Patent laws protect an inventor's reward for creativity, and primarily vest a property right, while trade secret laws protect the trust and confidentiality of business and fiduciary relationships.[24]

For the same reason, we cannot conclude that the federal interest in patent protection is so dominant that State legislation regarding trade secrets is assumed to be precluded.[25] Trade secret protection antedates modern patent legislation, and we must presume that Congress would have articulated federal

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[20] F.T.C. v. Bunte Bros., Inc., 312 U.S. 349 (1941).

[21] Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942). See also Bethlehem Steel Co. v. New York State L. R. B., 330 U.S. 767 (1947); H. P. Welch Co. v. New Hampshire, 306 U.S. 79 (1939).

[22] See Algoma Plywood & Veneer Co. v. Wisconsin E. Rel. Bd., 336 U.S. 301 (1949); Eichholz v. P.S.C. of Missouri, 306 U.S. 268 (1939); *rehearing denied*, 306 U.S. 669 (1939).

[23] See generally Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942); Pennsylvania R. Co. v. P.S.C. of Pennsylvania, 250 U.S. 566 (1919).

[24] E. I. duPont de Nemours Powder Co. v. Masland, 244 U.S. 100 (1917).

[25] Cf. Hines v. Davidowitz, 312 U.S. 52 (1941).

dominance, had it wished to do so. Further, the obligations imposed by the federal patent laws do not reveal an intent to preclude State legislation.[26] Patent laws grant a limited exclusive right in return for public disclosure, while trade secret laws protect the obligation of contract, or deter the commission of torts.

Finally, it cannot be said that State legislation in this area produces a result inconsistent with the federal legislative scheme.[27] The patent laws work their historic twofold purpose of rewarding creativity and disclosing invention for the public benefit. The result of trade secret protection is perfectly consistent and complementary: research is stimulated, and its fruits inure to the public benefit in the form of new and improved products and services.

Last Term, in *Goldstein* v. *California*, — U.S. —, 37 L.Ed.2d 163 (1973), this Court refused to find that State criminal protection against "tape piracy" was preempted by federal copyright laws, prior to the extension by Congress of federal copyright protection to sound recordings. The Court argued that nothing in the copyright power suggests that the federal interest is exclusive, and that some copyright subject matter may be of purely local importance. The same considerations apply here. If the federal interest in protection of intellectual property were exclusive, surely the Constitution or the Congress would have so stated long before now.

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[26] See New York C. R. Co. v. Winfield, 244 U.S. 147 (1917); Charleston & W.C.R. Co. v. Varnville Furniture Co., 237 U.S. 597 (1915); Southern R. Co. v. Railroad Commission of Indiana, 236 U.S. 439 (1915).

[27] See Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942); Hill v. Florida, 325 U.S. 538 (1945).

In the instant case, it is most difficult to imagine a Congressional intent to supersede State trade secret laws. Indeed, Congress has recognized the validity of protecting trade secrets in many federal statutes. Thus, for example, the patent law itself, 35 U.S.C. Section 24 (Rev. Stat. Section 4908) bars a contempt citation of a witness who refuses to disclose trade secrets, 18 U.S.C. Section 1905 forbids officers and employees of the United States from disclosing trade or know-how secrets; 15 U.S.C. Section 46(f) gives the Commissioner of the F.T.C. power to publish information received by the Commission, *except trade secrets;* and 15 U.S.C., Sections 78x(a) and 79v deny the Securities and Exchange Commission authority to require disclosure of trade secrets in applications and reports. Moreover, Rule 26, of the Federal Rules of Civil Procedure and Rule 508 of the Proposed Rules of Evidence for United States Courts and Magistrates, approved by this court, — U.S. — , 34 L.Ed. 2d iv (1973) grant protection against disclosure of trade secrets, and confidential research and development information.

In the face of this express Congressional approval of protectibility of trade and know-how secrets, it must be concluded that Congress intended federal patent laws and State trade secret laws to share the task of protection of intellectual property, and the court below has wrongly concluded otherwise.[28]

CONCLUSION

This case presents a constitutional question of paramount public interest and concern on which there is an acknowledged conflict among the Circuits.

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[28] Prudential Insurance Co. v. Benjamin, 328 U.S. 408 (1946).

Amicus Curiae respectfully urges this Court to issue a Writ of Certiorari in this case so that the conflict may be resolved and the present clouded status of the law of trade secrets may be clarified.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that copies of the foregoing were on this ———day of September, 1973 mailed by regular airmail to counsel for Petitioner and Respondents as follows: Mr. Edward P. Troxell, Jones, Day, Cockley and Reavis, 1750 Union Commerce Building, Cleveland, Ohio 44115; Mr. William C. McCoy, Jr., Bosworth, Sessions & McCoy, 625 National City Bank Building, Cleveland, Ohio 44114.